

June 17, 2016

Dear clients and colleagues,

This week we would like to profile Burson, a position that was initiated in our EAFE small cap portfolio in Q4 2014. Its stock price has more than doubled since then compared to the flattish return of the ASX 200. We've met the management three times and visited its stores and distribution centres twice, the latest being in May 2016.

Many of you may be familiar with O'Reilly and Autozone in the USA. Burson has a similar business model and has also demonstrated strong and resilient growth.

Burson Group Ltd (BAP AU – A\$ 5.25)

www.burson.com.au

Business Overview

Founded in 1971, Burson is the number one automotive aftermarket specialist in Australia, providing parts, accessories and services. It has over 600 locations nationwide. Business segments include wholesale, trade, retail, independents and service. Burson Trade and Autobarn are household names in Australia. The company distributes over 500,000 auto parts to 30,000 workshops and other customers across Australia.

Target Market

The size of the automotive aftermarket in Australia is about A\$5.2 billion and growing at 2%-4% per year. Growth drivers come from population growth and increasing vehicles per household. There are approximately 17.2 million vehicles in Australia.

ESG

Burson recognizes that corporate governance is core to ensuring the creation, protection and enhancement of value within the company. Three out of four board directors are independent. The management team is very experienced and together owns about 1.5% of the company. The founder, Garry Johnson, still owns 3.3%.

Market Data

Market Cap A\$1.3B, Net debt/EBITDA 1.9x, Dividend Yield 1.9%, P/E (2017/6) 22.8x, Ev/Sales 1.7x, Ev/EBITDA 14.2x, Gross Margin 42.3%, EBITDA Margin 10.8%, Profit Margin 5.5%, ROE 12.3%.

Competition

It is a very fragmented market. The top two players are Burson and Repco. Others are independent mom & pop stores.

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Competitive Advantages

- Burson Trade has the widest network and broadest product range which ensures product delivery to workshops within an hour of ordering.
- Autobarn is a premium retailer of auto parts which provides superior service.

Growth Strategy

- Distribution: More store openings. The company plans to add 20 new stores per year in the trade business and 5-10 new stores per year in the retail business.
- Consolidation: It continues to pursue accretive acquisitions.
- Private label products: Target 35% of total sales from 10% today.

Risks

- Acquisition integration.
- Forex: A weak A\$ may add pricing pressure to imports.

In its latest quarterly update ending March, Burson reported strong same-store sales growth of 4.5% for Burson Trade and 4.0% for Autobarn. It expects the full year EPS to grow between 24.5% and 29.0%. We are confident that the strong business momentum will continue to reward long-term shareholders.

Have a great weekend.

The Global Alpha team

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